

Message Text

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ORIGIN EB-04

INFO OCT-01 SS-14 ISO-00 NEA-07 INR-05 INRE-00 CIAE-00
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DRAFTED BY EB/ORF/FSE:PKBULLEN:CEJ
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-----124549 091728Z /50

O R 091712Z DEC 77
FM SECSTATE WASHDC
TO AMEMBASSY JIDDA IMMEDIATE
INFO AMEMBASSY CARACAS
AMEMBASSY TEHRAN
AMEMBASSY ABU DHABI
AMEMBASSY KUWAIT
AMEMBASSY DOHA

C O N F I D E N T I A L STATE 294227

LIMDIS, FOR THE AMBASSADOR

E.O. 11652: GDS

TAGS: ENRG, SA, US, OPEC

SUBJECT: OIL PRICE FREEZE

REF: (A) JIDDA 8148, (B) JIDDA 8297

1. WE GREATLY APPRECIATE YOUR IMAGINATIVE AND CONSTRUCTIVE
EFFORTS IN CONSOLIDATING SAUDI RESOLVE TO PUSH FOR A PRICE
FREEZE. WE ARE PLEASED AT YAMANI'S ASSURANCE REPORTED
REF A THAT A PRICE FREEZE AT OPEC MEETING IN CARACAS IS A
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FOREGONE CONCLUSION. WHEN SUITABLE OPPORTUNITY ARISES,
YOU SHOULD CONVEY TO SAUDI LEADERSHIP OUR WARM APPRECIATION
FOR ALL THE SAUDIS HAVE DONE TO LINE UP SUPPORT TO ASSURE
A PRICE FREEZE DECISION AT THE DECEMBER OPEC MEETING. IN
CONVEYING THIS, YOU SHOULD ADD THAT WE STRONGLY BELIEVE
IT SHOULD BE ANNOUNCED AT CARACAS THAT THE FREEZE IS FOR
THE ENTIRE YEAR OF 1978 IN ORDER TO ELIMINATE THE UN-

CERTAINTY WHICH THE OIL MARKET AND THE WORLD ECONOMY WOULD OTHERWISE EXPERIENCE DURING THE YEAR. UNCERTAINTY ABOUT THE POSSIBILITY OF A PRICE RISE AT MID-YEAR WOULD INHIBIT INVESTMENT DECISIONS AND ECONOMIC EXPANSION AND THUS UNDERCUT THE MAXIMUM BENEFICIAL IMPACT ON THE GLOBAL ECONOMIC RECOVERY WHICH WE AND THE SAUDIS SEEK. IN OUR DISCUSSIONS OF A FREEZE WITH SAUDI LEADERS, THE SHAH, AND OTHERS, WE HAVE CONSISTENTLY UNDERSTOOD THIS TO MEAN A FREEZE FOR THE

FULL YEAR AT LEAST.

2) FYI: WE ARE CONCERNED THAT YAMANI'S ASSURANCE, WELCOME AS IT IS, ANTICIPATES THE POSSIBILITY OF A PRICE RISE ON JULY 1, 1978. (OTAYBA'S REMARKS REPORTED IN REF B ARE ENCOURAGING AS FAR AS THEY GO.) A SIX-MONTH FREEZE WOULD ENCOURAGE THIS SORT OF EXPECTATION, ESPECIALLY IF THE SAUDIS MAINTAIN A CEILING ON PRODUCTION OF 8.5 MILLION BARRELS PER DAY. IN SUCH A SITUATION, THE COMPANIES ARE LIKELY TO ENGAGE IN STOCK-PILING IN MAY AND JUNE, TEMPORARILY CREATING AN ARTIFICIALLY HIGH LEVEL OF MARKET DEMAND. OPEC COUNTRIES COULD THEN POINT TO THIS HIGH DEMAND AS JUSTIFICATION FOR A PRICE INCREASE AT MID-YEAR. THUS YAMANI'S PREDICTION OF DEMAND PRESSURE ON OIL SUPPLIES LATER IN 1978 COULD BECOME A SELF-FULFILLING PROPHECY.

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3) WE ANTICIPATE THAT OIL PRICE ISSUES WILL COME UP IN SECRETARY'S TALKS WITH SAUDIS IN RIYADH NEXT WEEK. END FYI. CHRISTOPHER

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